



# Fannie Mae Mortgage Fraud Update

## April 2007

The following charts and tables reflect data on loans delivered to Fannie Mae. They are a reflection of Fannie Mae's experience, and do not purport to represent statistics covering the mortgage lending industry as a whole. They are intended to be used for information and benchmarking purposes only.

### Types of Misrepresentation Findings

#### Definitions:

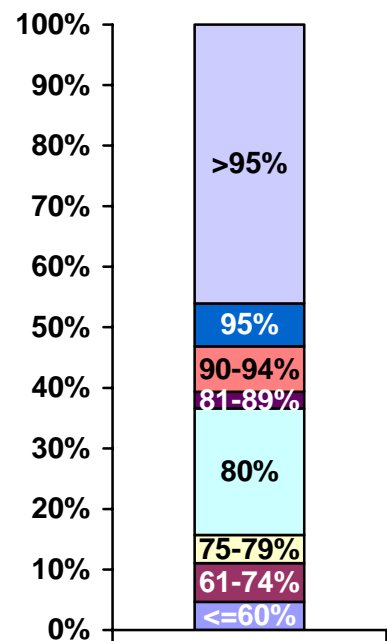
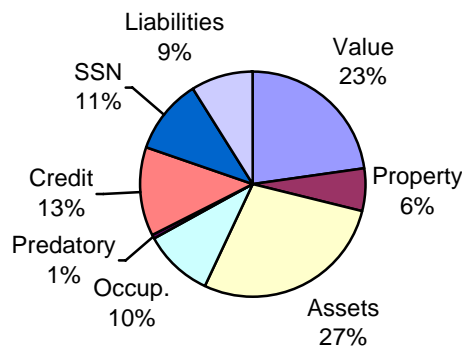
- **Credit** = The borrower's identity and/or credit history was/were misrepresented.
- **SSN** = There is a significant discrepancy in the SSN(s) used to qualify the borrower(s).
- **Liabilities** = The borrower's liabilities were misrepresented.
- **Value** = The property value was inflated and there was non-property-related misrepresentation in the loan transaction.
- **Property** = A specific material fact about the property and/or the comparable sales was misrepresented.
- **Assets** = The borrower's funds information was inflated or fabricated.
- **Income** = The borrower's income/employment information was inflated or fabricated.
- **Occupancy** = The borrower's intent to occupy the subject property was materially misrepresented.
- **Predatory** = The loan was in violation of one or more Fannie Mae predatory rules and there was misrepresentation in other areas of the loan transaction.

### Special Focus on Income Misrepresentation

Income misrepresentation consistently ranks among the most common types of mortgage fraud Fannie Mae discovers as a result of its loan file reviews. The following analysis reflects all income misrepresentation findings for loans originated in 2005-2006, as of reviews completed through March 2007, and all income misrepresentation scenarios, including those related to stated-income documentation, fabricated employment/income and materially inflated income.

### Profile of 2005-2006 Loans with Income Misrepresentation

- Average LTV = 88.6% (LTV distribution in chart to right)
- Nearly half (46.1%) had an LTV greater than 95%
- Income was the sole fraud issue on 52.8% of the loans
- The distribution of additional fraud issues is on the pie chart below

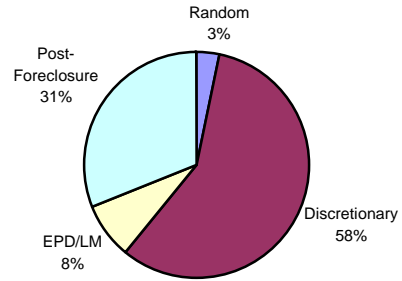


**Observations**

- The average LTV for loans with income misrepresentation (88.6%) was higher than for loans with other types of misrepresentation (84.2%).
- The percentage of income-misrepresentation loans with LTVs over 95% (46.1%) was nearly double that of loans with other types of misrepresentation (24.6%).
- Asset misrepresentation (27%) was the most common issue accompanying income misrepresentation, but occurred just over half as often as income misrepresentation occurred alone (52.8%).

**Income Misrepresentation Findings By Review Type**

- Majority of 2005-2006 loans with income misrepresentation (62%) were not in default at time of discovery. (“EPD/LM” = Early Payment Default or Loss Mitigation review; “Random” & “Discretionary” = post-purchase reviews of active loans.)

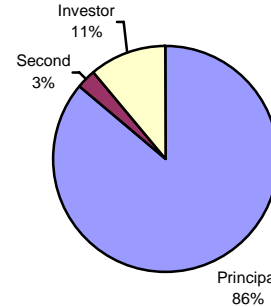


**Observation**

- Income misrepresentation was frequently identified in “fraud-for-house” scenarios where the borrower intended to continue to make payments.

**Income Misrepresentation Findings By Occupancy Type**

- Majority of 2005-2006 loans with income misrepresentation (86%) were secured by principal residences.



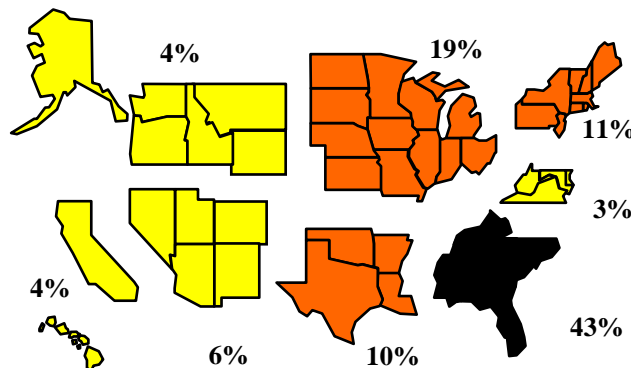
**Observation**

- Income misrepresentation was frequently identified in scenarios where the borrower was purchasing or refinancing a primary residence. Income misrepresentation in investment or second-home scenarios was more typically identified with “fraud-for-profit” scenarios that occur less frequently.

**Distribution of Income Misrepresentation Findings by Geography**

**By Region**

The following map depicts the distribution of significant income misrepresentation findings on 2005-2006 loans by geographic region.



### By State

The following table depicts the top ten states for Fannie Mae income misrepresentation findings on 2005-2006 loans.

1. Tennessee
2. Georgia
3. Florida
4. Texas
5. Illinois
6. Michigan
7. New Jersey
8. California
9. New York
10. Colorado

### By Zip Code Area

The following table depicts the top ten zip code areas (first three zip code digits and representative city) for Fannie Mae income misrepresentation findings on 2005-2006 loans.

1. 381 Memphis, TN
2. 300 Decatur, GA
3. 330 Pompano Beach, FL
4. 601 Elgin, IL
5. 770 Houston, TX
6. 482 Detroit, MI
7. 331 Miami, FL
8. 303 Atlanta, GA
9. 600 Wheeling, IL
10. 774 Katy, TX

- **Memphis** is prominent and growing in part as a result of a fraud-for-profit scheme involving one broker/loan officer and over 100 flips of foreclosed properties at inflated values. In most cases, the borrowers appeared to be valid, but practically every transaction included false documentation. Some aspects of the scheme included:
  - Identical fabricated non-traditional credit references used in multiple loan files.
  - Identical fabricated bank statements with obvious misspellings (i.e. "Mephis" instead of Memphis.)
  - Same property insurance agent and closing agent. Same three appraisers.
  - Fabricated pay stubs that use similar formats for different employers – sometimes showing pay stub numbers in same sequence for different employers.
  - Altered SSA award letters that insert language such as "for life" after "Disabled Individual" in order to falsify income continuance.

### **Observations**

- Incidents identified in Memphis and in the Metro Atlanta and Miami areas represented a high portion of the income fraud discovered thus far in 2005-2006 originations – and led to the Southeast region's position as the top region for income misrepresentation.
- Whereas the Midwest region accounted for just 19 percent of the income misrepresentation during this period, it accounted for 31 percent of overall misrepresentation – and for 39 percent of non-income misrepresentation. The Southeast only accounted for 26 percent of non-income misrepresentation.
- The top ten zip code areas for income misrepresentation were very similar to the top ten for overall misrepresentation. 462-Indianapolis, 554-Minneapolis and 460-Westfield, IN, are the only three areas in the top-ten overall that do not show up on the top-ten income-misrepresentation list.

## Law Enforcement News

Below are summaries and links for selected mortgage fraud related law enforcement press releases. The information provided below was obtained from the referenced Web sites. The referenced links were active as of March 2007, but may become inactive over time. Fannie Mae does not maintain any of these Web sites.

-  **New Haven, CT** – The US Attorney (3/12) announced that Attorney **John M. Claydon, Jr.**, was sentenced to 60 months in prison and ordered to pay restitution of \$733,562 after being convicted of diverting refinance funds for his personal use. <http://newhaven.fbi.gov/dojpressrel/2007/nh031207.htm>
-  **Tallahassee, FL** – The Florida Department of Financial Services (3/01) announced that **Pamela Jones Johnson** and **Elena Gunter Granderson** were arrested and believed to be part of a six-member mortgage fraud ring. According to FDFS, the six conspired to obtain bogus mortgages using false HUD-1s, appraisals, verifications of employment and other fraudulent documentation. <http://www.fdfs.com/PressOffice/ViewMediaRelease.asp?ID=2585>
-  **Miami, FL** – The US Attorney (3/16) announced that **Megan McGuire** and **Christine A. Brown** pled guilty to a scheme where they used straw buyers and false documentation to obtain mortgage loans. <http://www.usdoj.gov/usao/fls/PressReleases/070316-02.html>
-  **Augusta, GA** – The US Attorney (3/12) announced that **Stacey L. Shefton**, **Michael D. Dunn** and **Willie J. Anderson** were sentenced to 48 months in prison and \$1,062,450 in restitution, 51 months and \$338,084, and 60 months probation and \$17,530, respectively, for conspiring to falsify a second closing on a property that had legitimately closed one week prior, and retain the proceeds. <http://atlanta.fbi.gov/dojpressrel/pressrel07/mortgagefraud031207.htm>
-  **Atlanta, GA** – The US Attorney (3/14) announced that guilty verdicts were returned against **Marcus C. Alcindor** (aka **Christopher Alcindor**), **Barbara Brown**, **Fred Farmer**, **Phillip E. Hill**, **Christine Laudermill**, **Robert Powers**, **Leslie Rector**, **David Thomas**, **Dean Thomas** and **David Van Mersbergen** in a mortgage fraud scheme where multiple properties were purchased and flipped at inflated values. <http://www.usdoj.gov/usao/gan/press/2007/03-14-07.pdf>
-  **Lexington, KY** – The US Attorney (3/14) announced that builder **Edwin B. Koressel** (Triangle Group, Inc.) was sentenced to five years supervised release for providing fraudulent documentation to assist a couple in purchasing a property from him. [http://www.usdoj.gov/usao/kye/press/march/koressel\\_edwin\\_sent.html](http://www.usdoj.gov/usao/kye/press/march/koressel_edwin_sent.html)
-  **Minneapolis, MN** – The US Attorney (3/13) announced that mortgage broker **Ronald Clark Joseph** (LHS, Inc.) was indicted on mortgage fraud charges involving at least 40 properties. According to the US Attorney, Joseph allegedly fabricated purchase prices, concealed third-party payments, and collected substantial fees for arranging the transactions. The US Attorney said **Mario Augustin Lewis** pled guilty to money-laundering & wire fraud in connection with the same scheme. <http://www.usdoj.gov/usao/mn/press/econ/econ0134.pdf>
-  **Newark, NJ** – The US Attorney (3/13) announced that appraiser **Michael Meehan** pled guilty and admitted to submitting false and misleading property appraisals in a conspiracy to defraud mortgage lenders. The US Attorney said Meehan is the fourth defendant associated with **N.J. Affordable Homes, Inc.**, to plead guilty to involvement in the conspiracy. The others, **Katrina Arrington**, **John Kurzel** & **Lucesita Santiago**, await sentencing, the US Attorney said. <http://www.usdoj.gov/usao/nj/press/files/pdf/meeh0313rel.pdf>
-  **Sioux Falls, SD** – The US Attorney (3/5) announced that **Amanda Woods**, **Joshua Kiecksee** and **Matthew Sherron** were sentenced to four years probation, two years probation, and five years probation, respectively after pleading guilty to knowingly executing loan applications that contained false information. [http://www.usdoj.gov/usao/sd/media\\_news/SF-03-06-07-Woods.htm](http://www.usdoj.gov/usao/sd/media_news/SF-03-06-07-Woods.htm)



**Dallas, TX** – The US Attorney (3/8) announced an indictment charging eight defendants with falsifying appraisals, falsifying loan documents and related crimes in a \$14 million mortgage fraud scam. Indicted were real estate investors **Donald L. Jones & Joseph B. Jackson (Affordable Homebuilders & YIN Group)**, home healthcare operator **Donald Matthews “Mat” Jones (Private Home Health Care & Brain and Spinal Cord Injury LLC)**, mortgage company owner/operator **Daniel J. Sattizahn (Benchmark Mortgage & First Capital Investments)**, loan officer **Robert Patterson, Jr.**, escrow officer **Catherine L. Dike (AKA Cathy Carter)**, and straw buyer recruiters **William Barnes (BCT Landscaping) & Foday F. Fofanah**, the US Attorney said.

[http://www.usdoj.gov/usao/txn/PressRel07/jones\\_etal\\_mortgage\\_indict\\_pr.html](http://www.usdoj.gov/usao/txn/PressRel07/jones_etal_mortgage_indict_pr.html)



**Dallas, TX** – The US Attorney (3/20) announced that real estate investor **Vernon Cooks, Jr. (AKA Jibreel Rashad) (Rashad Investment Group)** was convicted in a mortgage fraud scheme where straw buyers were used to purchase homes above market value. The US Attorney said Cooks used fraudulent appraisals and credit documents in order to obtain loan approvals from lenders.

[http://www.usdoj.gov/usao/txn/PressRel07/cooks\\_convict\\_pr.html](http://www.usdoj.gov/usao/txn/PressRel07/cooks_convict_pr.html)



**Madison, WI** – The Wisconsin Attorney General (3/14) announced that **Lester Sundsmo and Lilac Sundsmo** were charged with criminal slander of title for filing phony liens. According to the Attorney General, the Sundsmos falsely submitted liens against employees of a bank that was foreclosing on their property, and stated that the bank employees owed them money.

[http://www.doj.state.wi.us/news/2007/nr031407\\_AG2.asp](http://www.doj.state.wi.us/news/2007/nr031407_AG2.asp)